



UNITED STATES

International Comparison of Insurance Taxation

October 2007



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United States – General Insurance

<p>1 Definition Definition of property and casualty insurance company</p>	<p>Accounting A company to which insurance legislation applies.</p>	<p>Taxation More than half of the company's business is issuing insurance or annuity contracts or reinsuring risks underwritten by insurance companies.</p>
<p>2 Commercial Accounts/ Tax and Regulatory Returns Basis for the company's commercial accounts</p>	<p>Accounting For statutory reporting, accounting practices prescribed or permitted by the company's state of domicile. In addition, companies may prepare financial statements in accordance with generally accepted accounting principles (GAAP).</p>	<p>Taxation Based on statutory accounts.</p>
<p>Regulatory return</p>	<p>A separate return as issued by the National Association of Insurance Commissioners.</p>	<p>N/A</p>
<p>Tax return</p>	<p>N/A</p>	<p>Annual – due 2½ months after tax year-end. Automatic six month extension available upon request.</p>
<p>3 Technical Reserves/ Equalisation Reserves Unearned premium reserves (UPR)</p>	<p>Accounting Generally calculated by time apportionment and considering the amount of insurance protection not yet provided.</p>	<p>Taxation Generally 80% of increase deductible.</p>



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United States – General Insurance (continued)

Unpaid claims reported	Calculated on a case-by-case basis at the expected ultimate cost of settling the claim and considering recoveries attributable to salvage and subrogation. Limited reserves, primarily workers compensation reserves, may be discounted.	Present value (i.e. discounting required) based on company or industry experience, subject to reasonableness test. Losses incurred must be reduced by estimated salvage and subrogation recoverable.
Claims incurred but not reported (IBNR)	Calculated based on past experience using actuarial methods.	Present value (i.e. discounting required) based on company or industry experience, subject to reasonableness test. Losses incurred must be reduced by estimated salvage and subrogation recoverable.
Unexpired risks	A premium deficiency shall be recognised if expected claim costs, loss adjustment expenses (LAE), unamortised acquisition costs and maintenance costs exceed premiums. Investment income may be considered in evaluating premium deficiencies.	N/A
General contingency/solvency reserves	Not allowed.	Not allowed.
Equalisation/catastrophe reserves	Not allowed.	Not allowed.

4 Expenses/Refunds

Acquisition expenses

Accounting

Acquisition costs are those costs that vary with and are primarily related to the acquisition and renewal of insurance contracts. Acquisition costs are capitalised and charged to expense in relation to the premium revenue recognised.

Taxation

Generally tax deductible immediately.



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Loss adjustment expenses on unsettled claims (Claims handling expenses)	A liability for costs expected to be incurred in connection with the settlement of unpaid claims (LEA) shall also be accrued.	Present value (i.e. discounting required) allowable based on company or industry experience, subject to reasonableness.
Experience-rated refunds	A separate liability shall be accrued, based on experience and the provisions of the contract.	Tax deductible.
5 Investments Gains and losses on investments	Accounting Depending on management's intention with respect to the holding period of the security, unrealised gains and losses are not recognised for securities expected to be held to maturity; recorded as a separate component of equity for available-for-sale securities.	Taxation Realised gains and losses are included in income. Realised net capital gains included in income. Mark-to-market rules apply to dealers in securities; however, generally not applicable to insurers.
Investment reserves	Not allowed.	Not allowed.
Investment income	Included in income.	80% to 100% owned subsidiary dividends are eligible for 100% deduction. At least 20%, but less than 80%, owned corporation dividends eligible for 80% deduction. Less than 20% owned corporation dividends eligible for 70% deduction. However, deduction for losses incurred must be reduced by 15% tax-exempt interest and 15% of the dividends received deduction for bonds and stock acquired after 7 August 1986.



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United States – General Insurance (continued)

6 Reinsurance

Reinsurance premiums and claims

Accounting

Unearned premium reserves and loss reserves are recorded gross of reinsurance and assets for prepaid reinsurance premiums and reinsurance recoverable are established.

Taxation

Tax deductible. However, the Internal Revenue Service has authority under certain circumstances to allocate revenue, deductions, credits, etc. between parties to eliminate significant tax avoidance effect.

7 Mutual companies

Mutual companies (all profits returned to members)

Accounting

Mutual companies have generally prepared financial statements in accordance with statutory practices and these statements have been considered GAAP for mutual company. Beginning with financial statements prepared for periods beginning after 31 December, 1994 these statements will not be considered GAAP financial statements.

Taxation

Generally the same as stock companies



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Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

Ordinary losses can be carried back two years and carried forward 20 years. Capital losses can be carried back three years and carried forward five years.

Foreign branch income

Foreign income is included; foreign tax credit permitted with certain limitations.

Domestic branch income

Calculated under ordinary rules. However, minimum effectively connected net investment income is included and calculated as the product of the company's required US assets and the domestic investment yield. Branch profits tax is imposed at the rate of 30% on deemed repatriated earnings of US branches of foreign corporations.

Corporate tax rate

Top federal rate is 35%. Lower rates apply on the first \$75,000 of income. The lower rates are phased out on income of \$100,000 to \$335,000. A 34% rate applies to taxable income from \$335,000 to \$10,000,000. The 34% rate is phased out on taxable income from \$10,000,000 to \$18,333,333.



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Other Tax Features *(continued)*

9 Other tax features

Premium taxes

Taxation

State premium taxes are imposed at rates ranging from 1% to 4%, varying from state to state.

Capital taxes

Imposed by a few states.

Captive insurance companies

US shareholders (generally 25% or more US-owned) are generally taxed on certain income of controlled foreign corporations. Continuing controversy over boundaries between true insurance and self-insurance. Some success in brother/sister scenarios with no unrelated party risk.



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United States – Life Insurance

1 Definition

Definition of Life Assurance companies

Accounting

A company to which insurance legislation applies.

Taxation

More than half of the company's business is issuing insurance or annuity contracts or reinsuring risks underwritten by insurance companies and more than 50% of reserves are for life and non-cancellable or guaranteed renewable accident and health contracts.

**2 Commercial Accounts/
Tax and Regulatory Returns**

Basis for the company's commercial accounts

Accounting

For statutory reporting, accounting practices prescribed or permitted by the company's state of domicile. In addition, companies may prepare financial statements in accordance with GAAP.

Taxation

Based on commercial accounts.

Regulatory return	A separate return as issued by the National Association of Insurance Commissioners.	N/A
Tax return	N/A	Annual – due 2½ months after tax year end. Automatic six-month extension available upon request.



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United States – Life Insurance *(continued)*

3 General approach to calculation of income

Allocation of income between shareholders and policyholders

Accounting

Generally, policyholder dividends should be accrued using an estimate of the amount to be paid.

Taxation

To be based on overall income with no distinction between investment income and underwriting income. Policyholder dividends are deductible without limit by a stock company. Mutual companies may only deduct the excess over a deemed return of equity.

4 Calculation of investment return

Calculation of investment income and capital gains

Accounting

Realised gains and losses as well as investment income are included in income.

Taxation

The company's share of net investment income is computed for purposes of determining availability of tax-exempt interest exclusion and dividend-received deduction. The company's share of net investment income is after reductions for interest are added to reserves and policyholder dividends. Realised net capital gains are included in gross income.



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United States – Life Insurance (continued)

5 Calculation of underwriting profits or total income

Actuarial reserves

Accounting

A liability for the present value of future policy benefits to be paid and related expenses less the present value of future net premiums shall be estimated using methods that include assumptions for expected investment yields, mortality and terminations applicable at the time the insurance contracts are made. The assumptions shall include a provision for the risk of adverse deviation.

Taxation

Generally deductible, equal to the greater of the net surrender value or the reserve computed under the Internal Revenue Code prescribed standards on a policy-by-policy basis, limited to reserves reported in the annual statement.

Acquisition expenses

Acquisition costs are those costs that vary with and are primarily related to the acquisition and renewal of insurance contracts. Acquisition costs are capitalised and charged to expense in relation to the premium revenue recognised.

Companies are required to capitalise and amortise their policy acquisition expenses (commonly referred to as deferred acquisition costs (DAC)). DAC is determined by applying a statutory percentage (capitalisation rate) to the premium derived from specified insurance contracts. Generally, a 10-year amortisation is provided. The rates are 1.75% for annuity contracts, 2.05% for group life insurance contracts and 7.7% for all other specified insurance contracts.



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Gains and losses on investments	Realised gains and losses are included in income. Depending on management's intention with respect to the holding period of the security, unrealised gains and losses are not recognised for securities expected to be held to maturity, recorded as a separate component of equity for available – for-sale securities and recorded in income for trading portfolio securities.	Realised net capital gains are included in gross income.
Reserves against market losses on investments	Statutory-only reserves are established that consider the type of investment and the credit quality.	None.
Dividend income	Included in investment income	80% to 100% owned subsidiary dividends are fully deductible. At least 20%, but less than 80%, owned corporation dividends are eligible for 80% deduction. Less than 20% owned corporation dividends are eligible for 70% deduction.
Policyholder bonuses	Generally, not applicable.	Generally, not applicable.
Other special deductions	None.	Companies with assets of less than \$500 million are eligible for a 60% small life insurance company deduction. This deduction is phased out as income increases from \$3 million to \$15 million.



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6 Reinsurance

Reinsurance

Accounting

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Taxation

Tax deductible. However, the Internal Revenue Service has authority under certain circumstances to allocate revenue, deductions, credits, etc. between parties to eliminate significant tax avoidance effect.

7 Mutual companies/Stock companies

Mutual companies

Accounting

Mutual companies have generally prepared financial statements in accordance with statutory practices and these statements have been considered GAAP for mutual companies. Beginning with financial statements prepared for periods beginning after 15 December, 1994 these statements will not be considered GAAP financial statements.

Taxation

There are no additional rules.



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Other Tax Features

8 Further corporate tax features

Loss carry-overs

Taxation

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Foreign branch income

Except for certain mutuals, foreign income is included, foreign tax credit permitted with certain limitations...

Domestic branch income

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Corporate tax rate

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9 Policyholder taxation

Deductibility of premiums

Taxation

None for the individual policyholder.

Interest build-up

If a contract meets the definitional test of a life insurance policy, interest build-up is not taxed.



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Other Tax Features (continued)

Proceeds during lifetime	Generally, life insurance and endowment contract proceeds are taxed only after full recovery of investment. Annuity payments are taxed either with gain and investment recovery allocated to each payment or on an income first and recovery of investment last basis. Modified endowment contracts are taxed under the annuity rules.
Proceeds on death	Tax-free provided that the contract meets the statutory definition of life insurance at all times.
10 Other tax features	Taxation
Premium taxes	State premium taxes are imposed at rates ranging from 1% to 3%, varying from state to state.
Capital taxes	Imposed by a few states.
Captive insurance companies	US shareholders (generally 25% or more US-owned) are generally taxed on certain income of controlled foreign corporations. Continuing controversy over boundaries between true insurance and self-insurance. Some success in brother/sister scenarios with no unrelated party risk.



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